

Message Text

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C O N F I D E N T I A L LUXEMBOURG 0187

E.O. 11652: GDS

TAGS: EFIN, EC

SUBJ: EC MONETARY COMMITTEE: GOLD

REF: EC BRUSSELS 1531

1. THE EMBASSY HAS OBTAINED A COPY OF THE MONETARY COMMITTEE WORKING PAPER ON GOLD PREPARED FOR THE APRIL 4-5 MEETING OF THE EC MONETARY COMMITTEE AND DISTRIBUTED TO THE MARCH 22 WORKING GROUP MEETING. THIS PAPER SUMMARIZES THE CURRENT STATE OF MONETARY COMMITTEE DISCUSSIONS ON GOLD AND CONFIRMS REFTEL REPORT OF MARCH 8 MONETARY COMMITTEE DISCUSSIONS.

2. ACCORDING TO MINFIN SOURCE, THE MONETARY COMMITTEE WILL ATTEMPT TO COMPLETE ITS DISCUSSIONS ON GOLD AT
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THE APRIL 4-5 MEETING IN ORDER TO PRESENT FINAL RECOM-

MENDATIONS TO THE MINISTERS OF FINANCE (OF THE "SNAKE"
CURRENCIES) MEETING IN COPENHAGEN APRIL 10.

3. AFTER GENERAL DISCUSSION OF MAJOR POINTS CON-
FRONTING THE COMMITTEE, THE MOBILIZATION OF GOLD RESERVES
FOR USE IN SETTLEMENTS AND THE PRICE OF GOLD TO BE USED
IN THESE SETTLEMENTS, THE WORKING PAPER LISTS THE ADVAN-
TAGES OF SIX OPTIONS THAT THE COMMITTEE WILL DISCUSS
FURTHER AT THE APRIL 4-5 MEETING.

(A) CENTRAL BANK SALES OF GOLD ON THE FREE MARKET.
AS THE REFTEL NOTES, THIS OPTION IS NOT FAVORED BECAUSE OF THE
EFFECT ON THE MARKET PRICE OF GOLD. IT IS RETAINED AS A POSSIBLE
ALTERNATIVE IN THE EVENT THAT OTHER OPTIONS PROVE UNACCEPTABLE.

(B) TRANSFERS OF GOLD TO THE "BRI" (PROBABLY IBRD) AGAINST
DOLLARS AND OTHER MEANS OF SETTLEMENT.
THE MAJOR PROBLEM OF THIS OPTION IS WHERE AND HOW THE IBRD
WOULD OBTAIN THE CURRENCIES TO EXCHANGE FOR GOLD.

(C) FREE TRANSACTIONS IN GOLD AMONG CENTRAL BANKS AT FREE
MARKET GOLD RATES.
IN ADDITION TO BEING CONTRARY TO IMF RULES, THIS OPTION RAISES
THE QUESTION OF PRICE DETERMINATION OF EACH CENTRAL BANK
TRANSACTION.

(D) TRANSFERS OF GOLD TO THE EUROPEAN MONETARY FUND FOR UNITS
OF ACCOUNT.

THIS OPTION RAISES PROBLEMS OF EUROPEAN MONETARY
INTEGRATION, THE POSSIBLE RESERVE ROLE OF THE UNIT OF
ACCOUNT AND THE CONVERTIBILITY OF THE UNIT OF ACCOUNT
INTO GOLD AND OTHER CURRENCIES.

(E) DISCRETIONARY TRANSACTIONS AMONG CENTRAL BANKS
OF THE COMMUNITY AT LIMITED GOLD PRICES.
THIS OPTION WOULD ALLOW CENTRAL BANKS TO BUY AND
SELL GOLD AT MARKET RATES BETWEEN A FLOOR AND CEILING
PRICE FIXED IN ADVANCE BUT WHICH COULD BE REVISED FROM
TIME TO TIME.

(F) MOBILIZATION OF GOLD AS COLLATERAL FOR LOANS.
THIS OPTION IS VIEWED AS HAVING THE ADVANTAGE OF
OBTAINING LOANS UNDER FAVORABLE FINANCIAL CONDITIONS
WHILE SUBSTITUTING IMMEDIATE LIQUIDITY FOR A "TAINTED"
LIQUIDITY OF GOLD. ON THE INTERNATIONAL LEVEL, GOLD
COULD BE USED AS COLLATERAL WITH THE IMF WHICH COULD THEN
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MAKE LOANS EITHER THROUGH ITS NORMAL CHANNELS OR BY
SPECIAL OPERATIONS, I.E., IN CONJUNCTION WITH THE LI-
QUIDITY OF THE PETROLEUM PRODUCING COUNTRIES. AT THE
REGIONAL LEVEL, GOLD COULD BE USED FOR COLLATERAL WITH
THE EUROPEAN MONETARY FUND OR THE IBRD.

4. A COPY OF THE WORKING PAPER IS BEING POUCHED TO THE
DEPARTMENT AND USEC BRUSSELS. FARKAS

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